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IN THE

Supreme Court of the United States

October Term, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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IN THE

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OCTOBER TERM, 1967

No. .....

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner Rovico, Inc., defendant below, respectfully prays for issuance of a writ of certiorari to review the judgment and order of the Court of Appeals for the Seventh Circuit, entered August 22, 1967 and the judgment on rehearing, entered October 11, 1967.

I

Orders, Opinions and Judgments Below

Order of the Seventh Circuit Court of Appeals denying, *en banc,* the petition for rehearing *en banc,* October 11, 1967, Appeal No. 15,905, not reported (A47).

Judgment and opinion of the Seventh Circuit Court of Appeals, August 22, 1967, Appeal No. 15,905, not officially reported, unofficially reported at 155 USPQ 119 (A35).

Order of the Seventh Circuit Court of Appeals on respondent's motion to strike from record on appeal, August 22, 1967, Appeal No. 15,905, not reported (A45).

Order of the Seventh Circuit Court of Appeals denying without opinion petitioner's petition for writ of mandamus to the District Court, November 29, 1966, Appeal No. 15,940, not reported.

Judgment of the District Court, N. D. Ill., E. Div., June 28, 1966, 62 C. 2080, not reported (A31).

Opinion of the District Court, N. D. Ill., E. Div., June 20, 1966, 62 C. 2080, officially reported at 257 F. Supp. 192, unofficially reported at 150 USPQ 180 (A11).

Order of the Seventh Circuit Court of Appeals denying without opinion respondent's petition for rehearing, April 27, 1966, Appeal No. 15,308, not reported.

Judgment and opinion of Seventh Circuit Court of Appeals on preliminary injunction, March 3, 1966, Appeal No. 15,308, officially reported at 359 F. 2d 746, unofficially reported at 148 USPQ 631 (A5).

Opinion of District Court, N. D. Ill. E. Div., on objections to exhibits, October 11, 1965, 62 C. 2080, not reported (A1).

II

Statement of the Grounds on Which Jurisdiction of This Court Is Invoked

Sought to be reviewed are the judgment (A35) and the order (A45) of the Seventh Circuit, each dated and entered August 22, 1967, and a single order (A47) denying rehearing as to both said judgment and order, dated and entered October 11, 1967. Jurisdiction to review by writ of certiorari is believed conferred by 28 U. S. C. 1254(1).

III

Questions Presented for Review

Patent Misuse: Exorbitant and Oppressive Royalties Per Se

1. Is an "exorbitant and oppressive" patent royalty, exacted under the leverage of an industry-dominating patent, a patent misuse violation of the antitrust laws (as unanimously held by the Court of Appeals in its earlier decision in this case) or is it "not a violation of the antitrust laws for a patentee to grant a license under his patent *for any royalty*" (as subsequently held by the District Court herein and then affirmed by a majority decision of the Court of Appeals)?

Patent Misuse: Exorbitant and Oppressive Royalties in Absence of Discrimination or Conspiracy to Fix Prices

2. Is the absence of discrimination, or conspiracy to fix prices, a defense to a patent misuse violation of the antitrust laws (as held herein by the District Court and affirmed by a majority decision of the Court of Appeals), or is it not a defense (as held by the Third Circuit Court of Appeals in *Hanover Shoe* v. *United Shoe Machinery Corp.*, 377 F. 2d 776, 781, 1967, cert. granted October 9, 1967, — U. S. —, 88 S. Ct. 86, and *Newburgh Moire Co.* v. *Superior Moire Co.*, 237 F. 2d 283, 293, 1956)?

Patent Misuse: Exorbitant and Oppressive Royalties as Price Fixing Device

3. Is an "exorbitant and oppressive" patent royalty a price fixing device when, as here, it is exacted from the bulk of an industry; and if so, is such royalty lawful (under *United States* v. *General Electric Co.*, 272 U. S. 476, 490;

47 S. Ct. 192, 1926) or unlawful (under *Standard Oil Co. (Indiana)* v. *United States,* 283 U. S. 163, 174; 51 S. Ct. 421, 425, 1931 and *Newburgh Moire Co.* v. *Superior Moire Co.,* 237 F. 2d 283, 291-294 (3 Cir. 1956))?

Patent Misuse: Royalties Derived From Unpatented Machines

4. Is the patent privilege used "contrary to the public interest" (as held in the dissenting opinion below) where, as here, a "patented machine is made and sold in combination with unpatented machines" and the royalty is based "not on the manufacturer's [licensee's] selling price of the patented machine" alone, "but on the retail [non-licensee's] selling price of the entire combination, patented and unpatented machines alike"?

Patent Validity: Exclusion of Evidence Contrary to F. R. Civ. P. 43(a)

5. Is F. R. Civ. P. 43(a) mandatory, or is it merely permissive, so that even on an issue affecting the public interest (herein, the validity of an industry-dominating patent) the District Court is free to exclude crucial evidence on grounds contrary to the rules of evidence of the Courts of general jurisdiction of the State in which the District Court is held?

Unclean Hands: Tampering With the Administration of Justice

6. Does a secret money offer made by one party litigant (respondent) to a prospective witness to induce him to testify against his employer (petitioner), constitute a case of unclean hands (tampering with the administration of justice in violation of 18 U. S. C. 201(h) and (i), and an

"exceptional case" under 35 U. S. C. 285) regardless of the pertinence of the prospective testimony to issues decided by the Court of Appeals?

IV

Constitutional Provisions, Statutes Involved

This case involves the commerce and patent clauses of the Constitution of the United States, Article I, Section 8 (A48); sections 1 and 2 of the Sherman Act, 15 U. S. C. §§1, 2 (A48); section 4 of the Clayton Act, 15 U. S. C. §15 (A50); section 201 of the Federal Criminal Code, 18 U. S. C. §201 (bribery of witnesses, A50); section 1254 of the Judicial Code, 28 U. S. C. 1254 (certiorari jurisdiction, A51); the following sections of the Patent Act, 35 U. S. C.: sections 102 and 103 (conditions for patentability, A51), 284 (damages, A52) and 285 (attorney fees, A52); and Rules 26 (depositions, A52) and 43 (evidence, A54) of the Federal Rules of Civil Procedure, all as set forth in Appendix IX at the pages indicated.

V

Statement of The Case

a. Proceedings That Gave Rise to This Case

In 1961 the Seventh Circuit Court of Appeals held Eisbein Patent No. 2,657,618 here in suit valid and infringed. *Copease* v. *American Photocopy Equipment Co.* (*Apeco*), 298 F. 2d 772. The losing party (defendant Apeco) in that case (plaintiff-respondent herein) thereupon bought out the prevailing party (plaintiff Copease) and became its successor in interest, acquiring title to the Eisbein patent and suceeeding to the licensor's rights

under all Eisbein patent license agreements then in force (A11-12).

b. Proceedings in This Case

On November 9, 1962, respondent instituted the present action against petitioner for infringement of the Eisbein patent. Petitioner counterpleaded, *inter alia,* patent misuse in violation of the Anti-trust Laws. On June 11, 1965, the District Court granted respondent's motion for a preliminary injunction, and petitioner appealed to the Court of Appeals for the Seventh Circuit.

The Court of Appeals heard and decided the appeal *after* the main case was *tried,* but *before* it was *decided.* In its decision of March 3, 1966 (A5; 359 F. 2d 746), affirmed on rehearing, the Court of Appeals noted petitioner's undisputed showing (A5, 7) that:

> "* * * plaintiff's license terms require payment of a royalty of 6% of the net *retail* selling price, which amounts to an equivalent of about 12% of the *manufacturer's* (licensee's) selling price, and that the royalty is payable on the entire machine, which includes both the patented and unpatented parts.
>
> * * *
>
> "* * * that inasmuch as * * * the value of the licensed part (one-half) of the machine is only half the value of the whole machine, the royalty imposed is approximately 24% of the manufacturer's selling price of the licensed half of the machine." (The Court's emphasis.)

The Court of Appeals recognized the analogy between this case and two Supreme Court decisions by citing and quoting them as follows (A8, 9):

> "In Mercoid Corp. v. Mid-Continent Co., 320 U. S. 661, at 667, 64 S. Ct. 268, 272, 88 L. Ed. 376 (1944), the court said:

> "'* * * The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraint on trade would plainly run afoul of the anti-trust laws. * * *'"
>
> * * *
>
> "In Brulotte v. Thys Co., 379 U. S. 29, at page 33, 85 S. Ct. 176, at page 179, 13 L. Ed. 2d 99 (1964), the court, while recognizing the leverage of a patent monopoly as a means of exacting royalties said:
>
> "'* * * But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the unpatented article to the purchase or use of unpatented ones. * * *'"

The Court of Appeals held the Eisbein patent in suit unenforceable because respondent's licensing policy violated the antitrust laws (A7):

> "The record before us shows that the license agreements in effect require plaintiff's licensees to fix a minimum selling price far above the price which they would otherwise charge and that the royalty policy of plaintiff is in violation of the anti-trust laws of the United States, being exorbitant and oppressive."

On June 20, 1966 the District Court rendered its decision on the main case (A11-30, 257 F. S. 192) and held, contrary to the decision of the Court of Appeals, that:

(a) "We cannot assume that there exist restrictions against 'unreasonably high royalties,' absent any proof of favoritism or conspiracy to fix prices * * *" (A26).

(b) "Indeed, the case law is uncontroverted to the effect that it is not a violation of the anti-trust laws for a patentee to grant a license under his patent *for any royalty* * * *." (A26; the Court's emphasis.)

(c) " * * * we cannot consider that 6-12-24 per cent royalty charged herein to be oppressive" (A27).

(d) " * * * we can find no rationale to support defendant's argument relating to 'tying.' While APECO's royalties are charged as a percentage of the retail selling price of the whole photocopying machine, [patented] developing and [unpatented] exposure devices alike, it would seem illogical to this Court to conclude that APECO thus expanded its patent monopoly to include a non-patented device" (A28).

Additionally, the District Court held the Eisbein patent in suit valid (A13-19) and infringed (A19-24).

Petitioner thereupon applied to the Court of Appeals for a writ of mandamus to compel the District Court to adopt and apply the antitrust law laid down in the decision of March 3, 1966 as the law of the case and of the Circuit. The petition for mandamus was denied without opinion.

On July 19, 1966 petitioner appealed the District Court decision of June 20, 1966. Respondent moved to strike certain items of evidence (pertinent to Questions 1, 3, 4 and 6 herein) from the record on appeal.

On August 22, 1967 the Court of Appeals granted the motion to strike (A45) and concurrently affirmed the District Court by a majority decision (A35), Circuit Judge Schnackenberg dissenting (A44) as follows:

"The record shows that the patented machine is made and sold in combination with unpatented ma-

> chines installed in the same cabinet and that the royalty paid by the manufacturer, is based, not on the manufacturer's selling price of the patented machine, but on the retail selling price of the entire combination, patented and unpatented machines alike. Thus, although the royalty rate of 6% remains constant, the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%.* It has been demonstrated in this case that the patent privilege in this case is being used by plaintiff contrary to the public interest. *Mercoid Corp.* v. *Mid-Continent Company,* 320 U. S. 661, 669 (1944); *Morton Salt Co.* v. *Suppiger Co.,* 314 U. S. 488, 492 (1942)."

Petitioner applied for rehearing *en banc.* On October 11, 1967, the petition was denied (A47), Judge Schnackenberg again dissenting:

> "Judge Schnackenberg voted to grant the petition for rehearing en banc, said hearing to be limited to the defense of misuse and plaintiff's reply thereto."

c. Nature of Patent in Suit

The invention relates to the process of office photocopying whereby positive copies are made from original documents. As found by the District Court (A12), this process

> "involves two basic steps—exposure and development. * * *
>
> "The Eisbein patent at issue discloses and claims a machine for performing the development stage alone * * *."

---

* This finding of a royalty ranging as high as 136% is based on proffered evidence excluded by the order of August 22, 1967 (A45).

Originally the exposing and developing steps were performed on two separate machines (the unpatented exposing machine and the patented developing machine) occupying two separate cabinets. Their transition to a single cabinet was described by counsel for respondent (Hearing of April 29, 1966, Tr. 23) as follows:

> "Mr. Crown: * * * As the Court will recall, initially the two devices were made separately with two motors. Then, the next step in the development of the machine was to put a little indentation on top of the developer device or on top of the exposure device so that you could stand the two together, two electrical cords, two motors, two separate units. Then, pretty soon, when the technology improved, the machines were combined * * *."

They are *still* separate machines although in most (not all) cases they occupy the same cabinet and are driven by the same motor. Each performs its own function independently of the other.

The patent in suit does not cover the photocopying process, *per se;* it does not cover the exposing machine alone; it does not cover the exposing machine in combination with the developing machine. *The patent covers the developing machine alone.* The photocopying process, the exposing machine, and the combination of both machines, are in the public domain.

d. The Patent Dominates the Industry

Respondent "is the largest in the field of diffusion-transfer * machines" (Trial Tr. 33). Respondent and its licensees comprise the bulk of the industry, as found by the Court of Appeals in its decision of March 3, 1966 (A10), and as testified by respondent's secretary and general counsel MacLeod (Appendix to Appellant's Brief, 144a-145a):

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* The technical name of the photocopy process is Diffusion-Transfer-Reversal (DTR).

"Q. Mr. MacLeod, isn't it a fact that your licensees and Apeco itself constitute the bulk of the industry? A. Yes.*

Q. So that the entire transfer-diffusion industry is involved with the Eisbein patent in the following way: One, Apeco is the licensor. Then there is a group of companies, and they, with Apeco, constitute the bulk of the industry, they are licensees, and the third group are those who are charged with infringement? A. Either in litigation or not in litigation. Yes, that is correct."

Not only does the patent involve the bulk of the industry, but all licenses granted thereunder by respondent contain the provision (DX-I 1, 2, 3, 5, 6, 7, 10, 12) that:

"It is expressly agreed by Licensee that Licensed Machines hereunder include *all of the diffusion transfer machines* being marketed by Licensee and any of its subsidiaries on the date of this Agreement." (Emphasis supplied.)

The District Court's finding of a larger relevant market occupied only in small part by respondent (A25-27) is not supported by the record. The *only* reference to this larger market in the entire trial record appears in the following leading question and hearsay answer (Tr. 1249; 147a):

"Q. [By Mr. Conner, respondent's attorney] Mr. MacLeod, do you have any idea of the total volume of sales in the United States of the office photocopy industry as a whole, including not merely diffusion-transfer, but also Xerography, Thermography, and diffusion-transfer? A. [By Mr. MacLeod, respondent's secretary and general counsel] Yes, it has been estimated in publications to be four hundred to five hundred million dollars a year."

---

* They now comprise the *entire* industry. On or about November 30, 1967, *Apeco* v. *A. B. Dick* (D. C. Ill.) was settled for an undisclosed but substantial sum and the granting of a license under the Eisbein patent.

VI

Reasons for Allowance of the Writ

QUESTION 1

Patent Misuse: Exorbitant and Oppressive Royalties Per se

This is an important question of federal patent and antitrust law which has not been, but should be, settled by this Court.

The question is *whether the leverage of a patent monopoly may be used to exact exorbitant and oppressive patent royalties.*

It was held by the Court of Appeals on the preliminary injunction appeal herein (A7) that:

> "* * * the royalty policy of plaintiff is in violation of the antitrust laws of the United States, being exorbitant and oppressive."*

It was thereafter held by the District Court (in its decision on the main case) that (A26):

> "We cannot assume that there exist restrictions against 'unreasonably high royalties,' absent any proof of favoritism or conspiracy to fix prices * * *. Where a patentee is certainly free not to license at

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* As noted in "Patents and the Anti-Trust Laws" published by The Bureau of National Affairs (p. 17):

> "* * * a court has for the first time held an 'exorbitant and oppressive patent-royalty rate to be misuse of the patent."

This decision has aroused great interest and some ridicule. The George Washington Law Review for May, 1967, in an article entitled "This Year (1966) in Patent Law" (p. 742) characterized the decision as a "novel, if not bizarre view."

> all, we fail to see how competition is restrained by charging high royalties. * * * Indeed, the case law is uncontroverted to the effect that it is not a violation of the anti-trust laws for a patentee to grant a license under his patent *for any royalty* or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure. * * * *United States* v. *General Electric Co.*, 272 U. S. 476, 47 S. Ct. 192, 71 L. Ed. 362 (1926); *United States* v. *Huck* (D. C. Mich., 1964), 227 F. Supp. 791, 803, affd. 382 U. S. 197, 86 S. Ct. 385, 15 L. Ed. 2d 268 (1965)" (the Court's emphasis).

This decision was affirmed by a majority decision of the Court of Appeals (A43), Judge Schnackenberg dissenting (A44).

Respondent's position* on this issue of the right to charge any patent royalty whatsoever, no matter how high, is stated in its Memorandum in Opposition to Petition for Rehearing (p. 6) as follows:

> "* * * defendant charges that the District Court's opinion that a patentee may 'grant a license for *any royalty*' is contrary to the law as laid down by the U. S. Supreme Court. Defendant has neglected to mention the fact that this language was quoted verbatim from the opinion of the U. S. Supreme Court in *United States* v. *General Electric Co.*, 272 U. S. 476, 489, 47 S. Ct. 192, 196 (1926):
>
> "'. . . the patentee may grant a license to make, use and vend articles under the specification of the patent for any royalty or upon any condition

* This position was adopted by both Courts below, Judge Schnackenberg alone dissenting.

> the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'
>
> "That the 'reasonable' test applies only to a 'condition' and not to the amount of the royalty* was made clear by the recent opinion of the Court in *Brulotte* v. *Thys*, 379 U. S. 29, 33, 85 S. Ct. 176, 179 (1965):
>
> " 'A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly.' "

Query: Have the Courts below correctly construed the *General Electric* decision of this Court? Is not a royalty as much a condition for a license as any condition that has ever been impressed upon a license? And, if so, should not *General Electric's* "reasonable reward" rule apply to royalties equally as well as to all other conditions?

Should not *General Electric* be interpreted (to paraphrase the above quotation from that case) as holding that:

> "The patentee may grant a license * * * for any royalty" *which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure,* "or upon any" *other* "condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." (Italicized language not in original)

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* This is also the view expressed in "Patents and the Anti-Trust Laws" published by the Bureau of National Affairs (p. 20):

> " * * * the rule applied by the Seventh Circuit [in the decision on the preliminary injunction appeal herein], if upheld, would have to be regarded as an important curb on a patent owner's traditional right to charge all the traffic will bear—or, as the Supreme Court put it in Brulotte, 'to exact royalties as high as he can negotiate with the leverage of [the patent] monopoly.' "

Should not *Brulotte* be interpreted (to amplify the above quotation from that case) as holding that:

> "A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly", *provided, however, that they are reasonably within the reward which the patentee by the grant of the patent is entitled to secure.* (Italicized language not in original)

Are not these interpretations of *General Electric* and *Brulotte* supported by the following decisions of this Court?

Automatic Radio Mfg. Co. v. *Hazeltine Research,* 339 U. S. 827, 833, 70 S. Ct. 894, 897 (1950):

> "The right to a patent includes the right to market the use of the patent at a *reasonable return.*" (Emphasis supplied)

Standard Oil Co. (Indiana) v. *United States,* 283 U. S. 163, 172, 51 S. Ct. 421, 424 (1931):

> "The Government next contends that the agreements to maintain royalties violate the Sherman Law because the fees charged are *onerous.* * * * Unless the industry is dominated, or interstate commerce directly restrained, the Sherman Act does not require cross-licensing patentees to license at *reasonable rates* others engaged in interstate commerce." (Emphasis supplied)

United States v. *National Lead Co.,* 332 U. S. 319, 349, 67 S. Ct. 1634, 1648 (1947):

> "Recognizing the difficulty of computing a reasonable royalty, nevertheless, that conception is one that already has been recognized both by Congress and

by this Court. The term frequently has been employed in Sherman Anti-trust case consent decrees."

QUESTION 2

Patent Misuse: Exorbitant and Oppressive Royalties in Absence of Discrimination or Conspiracy to Fix Prices

This is an important question of federal patent and antitrust law on which the Seventh Circuit Court of Appeals has rendered a decision in conflict with two decisions of the Third Circuit Court of Appeals on the same matter.

The question is this: *Is the absence of discrimination, or conspiracy to fix prices, a defense to a case of patent misuse in violation of the antitrust laws?* This question was answered in the affirmative by the District Court below (and affirmed in the majority opinion of the Court of Appeals, A42) as follows (A26):

> "We cannot assume that there exist restrictions against 'unreasonably high royalties,' *absent any proof of favoritism or conspiracy to fix prices* * * *."(Emphasis supplied.)*

As to the absence of *discrimination,* this decision directly conflicts with the decision of the Third Circuit Court of Appeals in *Hanover Shoe* v. *United Shoe Machinery Corp.,* 377 F. 2d 776, 781 (1967), cert. granted October 9, 1967, ——U. S. ——, 88 S. Ct. 86:**

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* "Unreasonably high royalties" as a violation of the antitrust laws are discussed under Question 1 hereof. Question 2 deals only with the significance of the absence of discrimination or conspiracy to fix prices.

** Hanover Shoe does not deal with exorbitant royalites. It is cited solely for its holding that avoidance of discrimination is not, *ipso facto,* avoidance of violation of the antitrust laws.

> "United urges that its leasing system did no injury to Hanover because Hanover's competitors were subject to the same practices which United uniformly imposed on all its customers. This is a remarkable proposition. It is founded upon the premise that harm done to a customer loses its injurious effect when similar harm is inflicted upon other customers similarly situated. It would punish a partial wrong but absolve it if it is widespread and thus reduce the antitrust laws to a moral imperative without realistic effect."

As to the absence of *conspiracy to fix prices,* the decisions of the Courts below directly conflict with the decision of the Third Circuit Court of Appeals in *Newburgh Moire Co.* v. *Superior Moire Co.,* 237 F. 2d 283, 293 (1956):*

> "Here we reach no further than the issue [absence of conspiracy] reserved by the Supreme Court in each of the Gypsum cases. At worst, we think that the patent laws were not intended to empower a patentee to grant a plurality of licenses, each containing provisions fixing the price at which the licensee might sell the product or process to the company, and that, if a plurality of licenses are granted such provisions therein are prohibited by the antitrust laws [regardless of the absence of a price-fixing conspiracy]."

It is respectfully urged that this conflict between the Third and Seventh Circuits be reviewed and resolved by this Court.

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* Newburgh Moire does not deal with exorbitant royalties. It is cited solely for its holding that the absence of conspiracy is no defense to a case of violation of the antitrust laws.

QUESTION 3

Patent Misuse: Exorbitant and Oppressive Royalties as Price Fixing Device

This is an important question of federal patent and antitrust law which has not been, but should be, settled by this Court.

The question is (a) *whether an exorbitant and oppressive royalty, exacted from the bulk of an industry, is a price fixing device;* and, if so, (b) *whether it violates the antitrust laws.*

The closest this Court has come to answering the first half of this question is its holding in *Standard Oil Co. (Indiana)* v. *United States,* 283 U. S. 163, 174, 51 S. Ct. 421, 425 (1931) that:

> "If combining patent owners effectively dominate an industry, the power to fix and maintain royalties is tantamount to the power to fix prices.[9]

"[9] Where the royalty demanded is a fixed percentage of the gross sales price, this relationship is clear."

In *Newburgh Moire Co.* v. *Superior Moire Co.,* 237 F. 2d 283, 293 (1956), the Third Circuit Court of Appeals held that:

> " * * * prices to the public are controlled to some degree at least by the amount of the royalties which licensees must pay and that therefore even ordinary licenses smack of price fixing."

It is believed that the present case is the first to place this question squarely before the Court. The facts satisfy the criteria laid down in *Standard Oil.* While it is true that we do not here have "combining patent owners" who "effectively dominate an industry", we do have a patent that dominates its industry.

We also have a royalty which is "a fixed percentage of the gross sales price". Indeed (and this goes beyond *Standard Oil*), we have a royalty based on the gross sales price which the retail dealer (who is not a licensee) charges the public, rather than on the gross sales price which the manufacturer (who is the licensee) charges his own customers (wholesale or retail dealers).

The 6% royalty in the present case admittedly is based on and derived from the retail selling price of the entire package, patented and unpatented machines alike. Admittedly the royalty amounts to 24%* when applied to the licensee's (manufacturer's) selling price of the patented machine. The District Court recognized the impact of a royalty of this magnitude upon the selling price (Hearing of April 29, 1966, Tr. 24):

> The Court: No one would contend it [the 24% royalty] doesn't have any effect on the selling price. I don't think you could seriously say it didn't have any effect on the selling price * * *.

Regarding the second half of the question, the Court of Appeals unanimously held in its earlier decision in this case (A7) that:

> "The record before us shows that the license agreements in effect require plaintiff's licensees to fix a minimum selling price far above the price which they would otherwise charge and that the royalty policy of plaintiff is in violation of the antitrust laws of the United States, being exorbitant and oppressive."

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* On the basis of the evidence, both in the record and proffered, Judge Schnackenberg found (A44) that "the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%."

Query: Is this the law today and should it have been applied in the majority decision of the Court below (A43), or is the rule of *United States* v. *General Electric Co.*, 272 U. S. 476, 490, 47 S. Ct. 192 (1926) still in effect, sanctioning price fixing by patent licensors?

In this connection we quote the Third Circuit Court of Appeals (*Newburgh Moire Co.* v. *Superior Moire Co.*, 237 F. 2d 283, 292, 1956):

> "The principle enunciated in Bement & Sons v. National Harrow Co., 1902, 186 U. S. 70, 22 S. Ct. 747, 46 L. Ed. 1058, and followed in United States v. General Electric Co., 1926, 272 U. S. 476, 47 S. Ct. 192, 71 L. Ed. 362, permitted a patentee to fix the price the licensee of the patent may charge for the device. *It is difficult to say how much of this principle remains in the law.* This question came to a head but was not resolved in United States v. Line Material Co., 1948, 333 U. S. 287, 312, 68 S. Ct. 550, 92 L. Ed. 701. * * * Four Justices thought that the General Electric decision should be overruled. Three thought otherwise and dissented. One Justice did not participate." (Emphasis supplied.)

In 1965, *General Electric* was again sustained by an equally divided Court in *United States* v. *Huck Mfg. Co.*, 382 U. S. 197, 86 S. Ct. 385, cited by the District Court (A26).

QUESTION 4

Patent Misuse: Royalties Derived From Unpatented Machines

This is an important question of federal patent and antitrust law which has been decided by the Court of Appeals in conflict with applicable decisions of this Court, including *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 64 S. Ct. 268 (1944), *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U. S. 827, 70 S. Ct. 894 (1950), and

United States v. *General Electric Co.*, 272 U. S. 476, 47 S. Ct. 192 (1926).

The question is *whether it is an unlawful expansion of the patent monopoly to exact royalties from unpatented machines sold in combination with the patented machine, or from the unpatented combination of both machines.*

Citing *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U. S. 827, 70 S. Ct. 894, 1950 (and related Hazeltine cases in the Seventh Circuit, among other decisions) the District Court answered this question in the negative (A28):

> "* * * we can find no rationale to support defendant's argument relating to 'tying'.* While APECO's royalties are charged as a percentage of the retail selling price of the whole photocopying machine, [patented] developing and [unpatented] exposure devices alike, it would seem illogical** to this

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* Is it not a "tying" relationship when prospective licensees offer to pay royalties on the patented machine alone, but are compelled to pay royalties on both machines?

> Q. [By Mr. Stoll, petitioner's attorney] * * * What have they [prospective licensees] informed you are the facts? A. [By Mr. MacLeod, respondent's secretary and general counsel] They have informed me that they would like to pay a royalty on [of] 6 percent of whatever is represented by the [patented] developing unit.

** This is a complete reversal of the District Court's earlier views expressed at the Hearing of April 29, 1966 (Tr. pp. 8-9):

> The Court: * * * It doesn't make sense and it does offend my sense of equity—when you take a patented article that may sell, whether it is for $50 or $100, and you put it in a cabinet and it sells for $400 or $450, that the licensor should receive a royalty on the entire instrument. * * *
>
> I am frank to say that while I was convinced at the time I tried the case that that was the law, the fact that it was, didn't mean that I should like it, and I didn't like it then and I don't like it now. I just think it is an unrealistic approach when licensors should receive royalties on unpatented articles * * *.

> Court to conclude that APECO thus expanded its patent monopoly to include a non-patented device. * * * Whether the royalty is stated as 6 per cent of the retail price of the entire machine, including the non-patented device, or 12 per cent of the retail price of the Eisbein apparatus alone is not essential [material?], for the result is precisely the same * . . . a specified charge for the right to manufacture under the patent at issue."

The majority decision of the Court below affirmed the District Court (A42-43):

> "The [district] court found no misuse in the alleged charging of royalties on the unpatented exposure part of the device * * *. We are not persuaded the findings are clearly erroneous or the conclusion of non-misuse is erroneous. Rovico's heavy reliance on *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944), is misplaced * * *."

But the dissenting opinion also relied heavily on *Mercoid* (A44):

> "The record shows that the patented machine is made and sold in combination with unpatented machines installed in the same cabinet and that the royalty paid by the manufacturer, is based, not on the manufacturer's selling price of the patented machine, but on the retail selling price of the entire combination, patented and unpatented machines alike. Thus, although the royalty rate of 6% remains constant, the actual royalty, applied to the

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* This conclusion has no support in the record. It erroneously presupposes the same cost or price relationship between the patented and unpatented machines in all models.

> manufacturer's selling price, ranges between 24% and 136%. It has been demonstrated in this case that the patent privilege in this case is being used by plaintiff contrary to the public interest. *Mercoid Corp.* v. *Mid-Continent Company,* 320 U. S. 661, 669 (1944); *Morton Salt Co.* v. *Suppiger Co.,* 314 U. S. 488, 492 (1942)."

Query: Have the District Court and the majority of the Court of Appeals correctly construed *Automatic Radio* and *Mercoid?* Do these decisions sanction the use of the leverage of a patent on one machine to exact royalties from another (unpatented) machine joined therewith, or from the unpatented combination of both machines?

Is it not the settled rule of this Court that any *ultra vires* use of a patent monopoly constitutes patent misuse, and that where, as here, it affects an industry, it violates the antitrust laws? The test was laid down in *United States* v. *General Electric Co.,* 272 U. S. 476, 489, 47 S. Ct. 192 (1926) where it was held that:

> "* * * the patentee may grant a license * * * for any royalty or upon any condition the performance of which is *reasonably within the reward* which the patentee by the grant of the patent is entitled to secure." (Emphasis supplied)

The test was restated in *Automatic Radio* (339 U. S. at p. 833, 70 S. Ct. at p. 897):

> "The right to a patent includes the right to market the use of the patent at a *reasonable return.*" (Emphasis supplied)

Query: Is it "reasonably within the reward" of a machine patent, to derive royalties from an unpatented

machine which is sold in combination with the patented machine, or to derive royalties from the unpatented combination of both machines?

It is respectfully submitted that this Court has answered this question in the negative in *Mercoid,* and that the majority decision in the Court below is in direct conflict with that case.

QUESTION 5

Patent Validity: Exclusion of Evidence Contrary to F. R. Civ. P. 43(a)

This is an important question of federal procedural law (interpretation of F. R. Civ. P. 43(a)) which has not been, but should be, settled by this Court. The Court of Appeals below has answered it in conflict with the decisions of all of the other Courts of Appeals on the same matter.

The question is *whether F. R. Civ. P. 43(a) is mandatory or permissive,* particularly the provision that:

> "All evidence shall be admitted which is admissible * * * under the rules of evidence applied in the courts of general jurisdiction of the state in which the United States court is held."

In the present case, this question is determinative of an issue affecting the public interest—validity of a patent which dominates an industry.

The question arises in connection with a certain Boeger deposition (DX-J4 id.) which is the direct answer to the District Court's finding (A18) of "repeated failure" by the industry "to develop a practical mode of operation for office use". The Boeger machine was either prior to, or

contemporary with, the Eisbein machine of the patent in suit. Respondent has conceded that the two machines were "identical".*

The Boeger deposition was excluded from the case at bar because it had been taken by the present respondent ** in prior litigation (*Copease* v. *American Photocopy Equipment Co.*, 298 F. 2d 772, 7 Cir. 1961) where the interest and motive of respondent were the reverse of what they are here (A37-38). As stated by the District Court (A2):

> "* * * plaintiff's [respondent's] counsel did not have an opportunity to cross examine these witnesses with a view toward the instant suit. Indeed, in the action from which this testimony was taken, APECO (Plaintiff here) was the defendant, and was charged with infringement. It would be most improper to permit introduction of this evidence."

But Copease did cross-examine *** Boeger and respondent is the direct successor in interest of Copease (A12). Indeed, the attorney who then represented Copease and

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* Respondent says "There is no wonder it [the Boeger machine] was identical [with the Eisbein machine]. * * * Boeger had thoroughly inspected the Eisbein machine before he designed his." (Appellee's Memorandum in Opposition To Petition for Rehearing before Court of Appeals, p. 7). There is no evidence in the record of any such prior inspection; it is denied in the Boeger deposition; and even if there were such evidence, it would bear on credibility and weight, not on admissibility.

** Although this deposition was taken in *Copease*, it was not introduced into evidence in that case.

*** Respondent asserts that Boeger did not permit completion of his cross-examination. There is no evidence of this in the record, nor is respondent in a position to complain since Boeger was respondent's own witness.

conducted Boeger's cross-examination, is the same attorney who today represents respondent and served as its trial and appeal counsel.

It has long been the rule in the Courts of general jurisdiction of the State of Illinois, that a deposition taken in prior litigation is admissible in subsequent litigation, against the party who cross-examined the witness, or against the party's successor in interest. See *Wade* v. *King,** 19 Ill. 301, 308 (Sup. Ct. Ill. 1857) and *Thompson* v. *City of Bushnell,* 348 Ill. App. 395, 109 N. E. 2d 346, 350 (App. Ct. Ill. 1952).

In *Wade* v. *King* (19 Ill. at p. 308) the Supreme Court of Illinois held that:

> "* * * depositions taken in a former suit between the same parties, involving the same question, or subject matter, are admissible when the question again arises for judicial determination. And it is not material that the parties be identical, or that there be complete mutuality in respect to their relation to each other, or to the subject matter. It is sufficient, if the same matter were in issue in both cases, and those against whom the depositions are offered, *or those under whom they claim the estate or right in question,* had opportunity of cross-examining the witnesses and testing the truth of their testimony." (Emphasis supplied.)

There is no question but that the Boeger deposition was admissible in the present case under the rule of *Wade* v. *King* and other decisions of the Courts of general jurisdiction of Illinois.

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* Abraham Lincoln was one of the attorneys in this case.

The question which remains to be answered is whether the Illinois decisions were binding on the District Court under F. R. Civ. P. 43(a). If Rule 43(a) is merely permissive, the Courts below were free to disregard the rules of evidence of the Illinois State Courts and to exclude the Boeger deposition. If Rule 43(a) is mandatory, the Illinois rules of evidence were binding on the District Court, and the exclusion of the Boeger deposition was reversible error.

All of the other Courts of Appeals have held Rule 43(a) to be mandatory. Illustrative are the following:

Second Circuit:

"*Of course,* if admissible under New York law they would be admissible in a federal trial court sitting in New York under Rule 43(a), F. R. C. P." (Emphasis supplied.) *Lue Chow Kon* v. *Brownell,* 220 F. 2d 187, 189 (1955).

Third Circuit:

"In the event of a conflict between state and federal law, the rule which favors admissibility *must* be followed." (Emphasis supplied.) *Rain* v. *Pavkov,* 357 F. 2d 506, 510 (1966).

Fourth Circuit:

"Under Fed. R. Civ. P. rule 43(a) if the evidence would be admissible under the statutes, rules or decisional law of the state in which the court sits, then it *must* be admitted in the federal court." (The Court's emphasis.) *Altvater* v. *Battocletti,* 300 F. 2d 156, 159 (1962).

Fifth Circuit:

"* * * under Rule 43(a), Federal Rules of Civil Procedure, the rule whether federal or state, which favors reception of the evidence *governs.*" (Emphasis supplied.) *Shahid* v. *Gulf Power Co.*, 291 F. 2d 422, 427 (1961).

Tenth Circuit:

"* * * state rules of admissibility are *controlling* in the federal courts * * *." (Emphasis supplied.) 5 Moore's Federal Practice, section 43.04, pp. 1327-1328, as quoted in *Mutual Life Insurance Co.* v. *Bohlman*, 328 F. 2d 289, 294 (1964).

QUESTION 6

Unclean Hands: Tampering with the Administration of Justice

This is an important question of federal law concerning the integrity of the administration of justice, which in part has not been, but should be, settled by this Court, and in part has been decided by the Court of Appeals in conflict with an applicable decision of this Court.

The basic question is *whether a secret money offer to a prospective witness to induce him to testify against his employer, constitutes a case of unclean hands (tampering with the administration of justice in violation of 18 U.S.C. 201(h) and (i)) and, in patent litigation, an "exceptional case" under 35 U.S.C. 285.*

Although this question was squarely presented to both Courts below, neither chose to answer it, and it has not heretofore been decided by this Court.

18 U.S.C. 201(h) prohibits an offer of "anything of value to any person, for or because of the testimony * * * given or to be given by such person * * *."

18 U.S.C. 201(i) prohibits acceptance of "anything of value * * * for or because of the testimony * * * given or to be given" by the recipient.

In the present case, respondent's offer to petitioner's employee was that (A46):

> "* * * if he would testify * against Rovico on the question of the violation of the preliminary injunction and lose his job as a consequence ** [he] would get * * * 'four to six months salary * * * every week until you find a job.'"

Query: Does a money offer to induce a prospective witness to testify constitute a violation of 18 U.S.C. 201(h) and an inducement to violate 18 U.S.C. 201(i), and if so, does it constitute a *per se* case of unclean hands which would deprive the guilty party of any standing in a Court of Equity?

If the answer to this basic question is in the affirmative, there remains the further question of *whether the application of the unclean hands doctrine turns on the pertinence of the prospective testimony to the issues decided by the Court.*

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* Respondent could have subpoenaed this witness and taken his testimony by deposition, as respondent had done with other witnesses in the same proceeding and in the same jurisdiction (New Jersey).

** This consequence was foreseeable. How else should an employer deal with an employee who would take time off from his job, travel to a distant city (Newark to Chicago), and there testify against his employer, all at the request and expense of the employer's adversary?

The Court of Appeals excluded the evidence of the money offer on the ground (A46) that it related:

> "* * * solely to the question of violation of the preliminary injunction subsequently set aside by this Court before the judgment appealed from was entered; and that the item is not pertinent to the issue of patent misuse decided by this Court and discussed in the dissenting opinion, nor to any other issue decided in this Court's opinion."

It is respectfully submitted that this decision is in direct conflict with the decision of this Court in *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240, 54 S. Ct. 146 (1933).

CONCLUSION

Petitioner respectfully requests that this petition for a writ of certiorari be granted.

Respectfully submitted,

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December 7, 1967

APPENDIX TO PETITION